



Utah Governor's Office *of* Economic Development

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**BUSINESS RESOURCE CENTERS ■ CAPITAL FORMATION ■ CENTERS OF EXCELLENCE ■
CORPORATE INCENTIVES UTAH ■ UTAH FILM COMMISSION ■ INTERNATIONAL DEVELOPMENT
OFFICE ■ OFFICE OF CONSUMER HEALTH SERVICES ■ PROCUREMENT ASSISTANCE ■ OFFICE OF
RURAL DEVELOPMENT ■ STATE SCIENCE ADVISOR ■ UTAH OFFICE OF TOURISM**



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Partnerships for International Development



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Doing Business in:



MEXICO



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Profile

- Population: 112,468,855 (July 2010 est.)
- Unemployment rate: 5.5% (2009 est.)
- GDP: \$1.465 trillion (2009 est.)
 - agriculture: 4.3%
 - industry: 32.9%
 - services: 62.8% (2009 est.)
- Exports: \$229.7 billion (2009 est.)

Commodities: manufactured goods, oil and oil products, silver, fruits, vegetables, coffee, cotton
- Imports: \$234.4 billion (2009 est.)

Commodities: metalworking machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, repair parts for motor vehicles, aircraft, and aircraft parts



Mexico

Overview:

- U.S.-Mexico bilateral commercial relationship strengthened by NAFTA (North American Free Trade Agreement).
- Mexico is the U.S.'s 3rd largest trade partner and 2nd largest export market for U.S. products.
- Mexico is Utah's 9th largest trading partner (September 2010 YTD).
- With a shared Western and Hispanic culture U.S. producers find it easier to market and sell their services and products in Mexico.

Challenges:

- Significant differences between the Mexican and the U.S. legal system.
- Mexico's large size can present difficulties in finding a single distributor or agent to cover the vast market.
- Despite showing signs of growth after years of stagnation, Mexico's interest rates remain relatively, high making financing at reasonable rates difficult to SMEs
- Security issues related to violence between drug trafficking organizations, specially in border areas.



Utah Exports to Mexico

Rank	Description	ANNUAL 2008	ANNUAL 2009	NOV 2009 YTD	NOV 2010 YTD	%2009-2010
	TOTAL ALL COMMODITIES	241,904,336.00	279,433,403.00	240,234,233.00	413,772,261. 00	72.24
1	Vehicles, Except Railway Or Tramway, And Parts Etc	14,123,975.00	26,514,092.00	17,068,894.00	76,117,040. 00	345.94
2	Ores, Slag And Ash	45,856,901.00	38,252,766.00	32,997,124.00	52,822,336.00	60.08
3	Explosives; Pyrotechnics; Matches; Pyro Alloys Etc	24,738,548.00	39,274,692.00	34,608,397.00	50,362,632.00	45.52
4	Industrial Machinery, Including Computers	13,113,303.00	26,528,291.00	24,490,889.00	29,506,616.00	20.48
5	Electric Machinery Etc; Sound Equip; Tv Equip; Pts	6,242,836.00	9,494,270.00	7,029,910.00	28,667,942. 00	307.80
6	Meat And Edible Meat Offal	7,680,828.00	11,196,216.00	9,747,498.00	18,537,125. 00	90.17
7	Miscellaneous Edible Preparations	12,055,068.00	13,271,974.00	11,908,602.00	16,089,347. 00	35.11
8	Articles Of Iron Or Steel	1,996,066.00	6,103,893.00	5,456,662.00	14,882,535.00	172.74
9	Furniture; Bedding Etc; Lamps Nesoi Etc; Prefab Bd	20,399,145.00	23,296,073.00	4,184,211.00	12,339,181. 00	194.90
10	Plastics And Articles Thereof	6,005,224.00	4,959,803.00	21,786,601.00	11,860,014.00	-45.56



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Market

Opportunities:

- The National Infrastructure Plan (2007-2012) offers key projects in power, oil and gas, airports, water supply and water treatment, and other sectors.
- Extensive, unexploited potential for investments in renewable energy, energy efficiency and clean energy.
- Most promising sectors include: agribusiness; auto parts & services; education services; energy; environmental; franchising; hotel & restaurant; housing & construction; internet & IT services; packaging equipment; security & safety equipment and services; telecommunications equipment; transportation infrastructure equipment and services; travel & tourism services and the agricultural sector.



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Market

Entry Strategy:

- Develop and maintain close relationships with clients and partners. Mexicans prefer direct communication such as telephone calls or face-to-face meetings. However, e-mail is widely used.
- Mexican companies are extremely price conscious: offer financing options, exclusive agreements, and outstanding service and flexibility.
- Consider product/service, logistics & customs, distribution, marketing, direct or indirect sales, exporting experience, and language proficiency factors in order to determine best market entry strategy.
- U.S. Commercial Service offers: assessment potential market of products and service, advice on export strategies, mediation of business agreements with potential clients and/or partners. Offices are located in Mexico City, Guadalajara, Monterrey and Tijuana.



Selling US Products/Services

- **Distributor**: useful/necessary in distributing product in various regions/ different businesses, specially if stocking of product is required.
- **Agent**: usually freelance. However, some Mexican firms serve as selling agents for U.S. firms. Effective in reaching smaller cities and remote locations.
*Selection of appropriate agent/distributor requires time and effort. Consider: area limitations of Mexican firms; developing close relationship with appointed individual/firm; providing appropriate training, marketing support, samples, product support, and timely supply of spare parts; including specific agent/distributor agreement cancellation clause free of vague language.
- **Office establishment**: regulated by General Law of Mercantile Organizations. Type of business determines the operations the firm is allowed to perform in Mexico among with liabilities and taxes. Ex: corporation (“S.A.”), corporation with variable capital (“S.A. de C.V.”), limited liability partnership (“S. de R.L.”), civil partnership (“S.C.”), and civil association (“A.C.”).
- **Franchising**: requires a long-term commitment and commitment to human and financial resources, as well as patience and time to make their concept succeed in the Mexican market. Agreements must be registered before the Mexican Institute of Industrial Property in order to be effective against third parties.



Selling US Products/Services

- **Marketing**: the marketing services industry has evolved into a more segmented and specialized sector offering U.S. companies a complete array of possibilities.

Medium and small-sized U.S. companies should work closely with their local distributor/representative in the creation of their marketing plan in order to have a strong presence in the market.

Break Down of Marketing Tools in Mexico

Publicity (printed & electronic media) 54.1%

In-Store Promotions 25.8%

Direct Marketing 12.2%

Market Research 4.9%

Public Relations 2.3%

Design 0.7%

CICOM (Confederation of the Industry for Marketing Communication): leading association in Mexico that coordinates the activities of local/international marketing associations. (www.cicom.org.mx)



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Selling US Products/Services

- **Joint Ventures**: considered separate entities from their parent companies and must register separately to pay taxes. Make sure to have a WRITTEN joint venture agreement.

To safeguard a license or patent against third parties, all licenses and patents must be registered with the Mexican Institute of Intellectual Property (IMPI). Registering a license or patent entails a government review that can take up to twenty weeks.

- **Selling to the government:**

Largest purchasers:

Public entities:

- Secretariat of Communications and Transport (SCT)
- Secretariat of Public Education (SEP)
- Treasury Department (SHCP)
- Secretariat of Health (SS)

Public enterprises:

- Mexican Petroleum (PEMEX)
- Federal Commission of Electricity (CFE)
- Mexican Social Security Institute (IMSS)
- The State Worker's Security and Social Services Institute (ISSSTE)



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Selling US Products/Services

- **Selling to the government continued:**

The Mexican government purchases large volumes of raw material, repair parts, finished goods, and hired services, to execute important infrastructure and construction works.

Estimates for 2009: Total government procurement amounted to USD \$23.7 billion (30% was to purchase goods, 45% for services and 25% for construction services)

For more info visit: <http://www.compranet.gob.mx>



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BUSINESS SCHEDULE

- Most private sector companies keep schedules that are similar to those in the United States.

Example:

- Morning office hours: 09:00 – 14:00
- Lunch time: 14:00 – 15:00
- Afternoon office hours: 15:00 – 18:00

- Government offices usually work very long and unusual hours. Example:

- Morning office hours: 10:00 – 14:30
- Lunch time: 14:30 – 17:00
- Afternoon office hours: 17:00 – 22:00



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LEGAL ASPECTS OF EXPORT MARKET ENTRY STRATEGIES

A. Initial business inquiries relative to international expansion.

1. What is our strategic purpose?
2. What are our short, medium and long term objectives?
3. What level of control and involvement do we desire?
4. How does the transaction relate to our domestic operations and strategy?
5. What is our commitment to the market in terms of financial and human resources?

B. Typical market entry strategies.

1. Common strategies.
 - a. Sales and/or manufacturing through establishment of foreign subsidiary or sister company.
 - b. Commercialization through establishment of foreign branch.
 - c. Sales and/or manufacturing by utilizing a joint venture with a foreign partner.
 - d. Exporting through foreign distributor, sales representative or agent.
 - e. Licensing of technology.
 - f. Direct export sales to end customers.
2. Advantages and disadvantages of each strategy.



LEGAL ASPECTS OF EXPORT MARKET ENTRY STRATEGIES

C. Legal issues relating to formation of foreign subsidiary, sister company or branch.

1. Selection of type of entity.
 - a. Corporation.
 - b. Limited liability company.
 - c. Partnership.
 - d. Branch.
2. Foreign investment law restrictions.
 - a. Exchange controls/repatriation of capital and profits.
 - b. Foreign Investment Commission approvals.
3. Immigration law issues.
4. Labor law issues.
5. Tax law considerations.



LEGAL ASPECTS OF EXPORT MARKET ENTRY STRATEGIES

D. Legal issues relating to joint venture arrangements.

1. Legal recognition.
2. Choice of vehicle.
3. Control issues.
4. Exit strategies.

E. Legal issues relating to use of sales agents/distributors.

1. Agent or distributor: The business and legal distinctions.
2. Special legal concerns regarding term and termination.
3. Permanent establishment issues.
4. Confidentiality issues.
5. Advantages and disadvantages.



LEGAL ASPECTS OF EXPORT MARKET ENTRY STRATEGIES

F. Specific legal issues arising in international sales contracts.

1. Applicable treaties.
2. U.N. Convention on Contracts for the International Sale of Goods.
3. International terminology.
4. Incoterms: delivery, pricing and payment terms.
5. Choice of law.
6. Dispute resolution.
7. Product approvals/registrations/labelling.
8. Import permits and duties.
9. Governing language.

G. Export financing alternatives.

1. Export/Import Bank.
2. PEFCO/OPIC.
3. Etc.



LEGAL ASPECTS OF EXPORT MARKET ENTRY STRATEGIES

H. Intellectual property law protection.

I. Application of U.S. law to foreign transactions.

1. Foreign Corrupt Practices Act.
2. Antitrust issues.
3. Antiboycott laws.
4. Export control laws.
5. Currency and Foreign Transactions Reporting Act.

J. Practical Suggestions.

1. Do your homework.
 - culture and customs
 - language
 - market for products or services and ease of access
 - identify regulatory framework
 - legal, tax and business framework



LEGAL ASPECTS OF EXPORT MARKET ENTRY STRATEGIES

2. Prepare business plan.
 - define market
 - analyze and select alternative market entry strategies
 - identify strengths and weaknesses and potential problem areas of each market entry strategy
 - budget ample resources -- both financial and human
 - adapt business and products to foreign market
 - devise strategy to cope with applicable laws and regulations
 - identify necessary personnel
3. Assemble team.
 - competent and experienced legal, tax and accounting advisors
 - take advantage of available resources (Utah Department of Community and Economic Development, U.S. Foreign & Commercial Service, USTR, Foreign Embassies, etc.)
 - communications experts
 - financial advisors/banking
 - shipping and customs experts
4. Remember three "P's."
 - Planning, preparation and persistence





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